

RECEIVED

APPLICATION FOR RATE ADJUSTMENT  
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY MAY 10 2006

For Small Utilities  
Pursuant to 807 KAR 5:076  
(Alternative Rate Filing)

PUBLIC SERVICE  
COMMISSION

Case No. 2006-00195

Downstream, Inc.

Name of Utility

P.O. Box 191

Frankfort, Kentucky 40602

Business Mailing Address

Telephone Number: (502) 227-7518

I. Basic Information

NAME, TITLE, ADDRESS and telephone number of the person to whom correspondence or communication concerning this application should be directed:

Name: Mary Ann Hulette

Address: Same as above.

Telephone Number: Same as above.

- 1) Do you have 500 customers or fewer?  Yes No
- 2) Do you have \$300,000 in Gross Annual Revenue or less?  Yes No
- 3) Has the utility filed an annual report with this Commission for the past year and the two previous years?  Yes No
- 4) Are the utility's records kept separate from any other commonly-owned enterprise?  Yes No

NOTICE: To be eligible for consideration of the rate adjustment under this regulation, you must have answered yes to either question 1 or 2 and yes to both questions 3 and 4 above. If you answered no to questions 3 or 4, you must obtain written approval from the Commission prior to filing this Application. If these requirements are not met, you must file under the Commission's procedural rules, 807 KAR 5:001.

II. Increased Cost Information

- (1) The most recent Annual Report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. The Annual Report used as the basis for this rate revision is the one filed with the Commission for the 12 months ending December 31, 2005.
- a. If you have reason to believe some of the items of revenue and expense listed in the Annual Report will increase or decrease, please list each item, the expected increase or decrease and the adjusted amount.

<u>Item Per Annual Report</u>	<u>Amount Per Annual Report</u>	<u>Increase/ (Decrease)</u>	<u>Adjusted Amount</u>
<u>Revenue</u>	\$ _____	\$ _____	\$ _____
Total Revenue	\$ _____	\$ _____	\$ _____
 <u>Expense</u>			
See Attachment A			
 Total Expense	\$ _____	\$ _____	\$ _____
Revenue Less Expense	\$ =====	\$ =====	\$ =====

- b. Please describe each item that you adjusted on page 2 and how you know it will change. (Please attach invoices, letters, contracts or receipts which will help in proving the change in cost).

See Attachment A

- c. Please list your present and proposed rates for each class (i.e., residential, commercial, etc.) of customer and the percentage of increase proposed for each class:

<u>Customer Class</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>% Increase</u>
Flat Rate Single Family Res.	\$27.51	\$55.85	103%
Flat Rate Multi. Family Res. (per unit)	27.51	55.85	103%

III. Other Information

a. Please complete the following questions:

- 1) Please describe any events or occurrences which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).

None

- 2) Total number of customers as of the date of filing: 35

- 3) Total amount of increased revenue requested: \$11,902

- 4) Please circle Yes or No:

- a) Does the utility have outstanding indebtedness? Yes  No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

- b) Were all revenues and expenses listed in the Annual Report for 2005 incurred and collected from January 1 to December 31 of that year? Yes  No

If no, list total revenue and total expense incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

- 5) Attach a copy of the utility's depreciation schedule of utility plant in service. Reconcile any differences between total depreciation shown on the Annual Report for 2005 and the amount shown on this schedule.  
See Attachment B.
- 6) If utility is a sewer utility:
  - a) Attach a copy of the latest State and Federal Income Tax Returns. See Attachment C
  - b) How much of the utility plant was recovered through the sale of lots or other contributions?

100 percent of the original plant with the original cost of \$70,821 was constructed by the developer and donated to sewer division with recovery coming through the sale of lots. The original plant is 100 percent depreciated with zero recovery included in this case. Depreciation in this case is calculated on improvements performed since the in-service date of the original plant. None of these improvements were financed through donated or contributed property. A provision for their recovery through rates has been included in depreciation expense.

b. Please state the reason or reasons why a rate adjustment is requested. (Attach additional pages if necessary).

Current rate is not adequate to fund operations.

#### IV. Billing Analysis

The billing analysis is the chart reflecting the usage by the customers as well as the revenue generated by a specific level of rates. A billing analysis of both the current and proposed rates is mandatory for analysis of this rate filing.

N/A. Downstream, Inc. utilizes a flat rate tariff.

V. General Information/Customer Notice

1) Filing Requirements:

a. If the applicant is a corporation, a certified copy of its articles of incorporation must be attached to this application. If the articles and any amendments thereto have already been filed with the Commission in a prior proceeding, it will be sufficient to state that fact in the application and refer to the style and case number of the prior proceeding. See Attachment D.

b. An original and 10 copies of the completed application should be sent to:

Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40601  
Telephone: (502) 564-3940

c. One copy of the completed application should also be sent at the same time to:

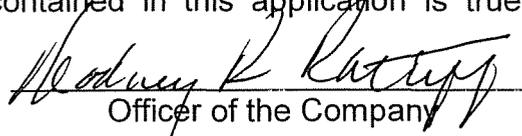
Office of the Attorney General  
Office of Rate Intervention  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204  
Telephone: (502) 696-5457

2) A copy of the customer notice must be filed with this application. Proper notice must comply with Section 4 of this regulation.

3) Copies of this form and the regulation may be obtained from the Commission's Office of Executive Director; or by calling (502) 564-3940

4) I have read and completed this application, and to the best of my knowledge all the information contained in this application is true and correct.

Signed

  
\_\_\_\_\_  
Officer of the Company

Title

President

Date

5/10/06

	Test Year	Adjustments	Pro Forma
Revenues from Residential Service	\$ 11,010	\$ 544 (A)	\$ 11,554
Operating Expenses			
Operation and Maintenance Expenses			
Purchased Power	2,313		2,313
Treatment and Disposal / Testing	1,109		1,109
Routine Maintenance Service Fee / Operator Fee	2,650	530 (B)	3,180
Maint. Of Treatment and Disposal Plant	4,247	(547) (C)	3,700
Administrative and General Salaries / Supplies Operator	2,330		2,330
Outside Services Employed / Legal and Accounting	2,455		2,455
Total Operating and Maintenance Expenses	15,105	(17)	15,088
Taxes Other Than Income Taxes	310		310
Depreciation	4,531	78 (C)	4,609
Total Operating Expenses Before Taxes	19,946	61	20,007
Net Operating Income Before Taxes	\$ (8,936)	\$ 483	\$ (8,453)

(A)

To adjust test year revenues to reflect current number of customers.

Present flat rate	\$ 27.51
Times: Number of customers currently served	<u>35.00</u>
Monthly revenue	962.85
Times: 12 Months	<u>12.00</u>
Annual revenue from flat rate	11,554.20
Less: Test year	<u>(11,010.03)</u>
Adjustment - Increase	<u><u>\$ 544.17</u></u>

(B)

During the test year the certified operator was paid a flat fee of \$265 per month for routine maintenance of the plant. During the test year two months were posted to wrong accounts resulting in an understatement of the routine maintenance fee. The reported test year amount increased by \$530 to correct these posting errors. The overstatements in the two erroneous accounts were eliminated through the revenue normalization and depreciation adjustments.

(C)

During the test year a new chlorine pump was installed at a total cost of \$546.73. The entire amount was expensed but should have been capitalized as the item will benefit more than one future period. A provision for its recovery over its estimated 7-year life has been included in pro forma depreciation.

Cost	547
Divided by: 7 years	<u>7</u>
Pro forma	<u><u>78</u></u>

Calculation of Revenue Requirement

Operating Expenses Before Income Taxes	\$	20,007	
Income Taxes		635	
			<hr/>
Total Operating Expenses		20,642	
Divide by: Operating Ratio		88%	
			<hr/>
Revenue Requirement		23,456	
Divided by: Number of Customers		35	
Divided by: 12 months		12	
			<hr/>
Monthly Flat Rate per Customer	\$	55.85	
			<hr/> <hr/>

Calculation of Income Taxes

Revenue Requirement	\$	23,456	
Less: Total Operating Expenses		(20,642)	
			<hr/>
Net Income Allowed After Taxes		2,815	
Times: Gross-up Factor based on 4 percent State and 15 percent Federal Tax		1.22549020	
			<hr/>
Income Before Taxes		3,449	
Less: Net Income Allowed After Taxes		(2,815)	
			<hr/>
Provision for Income Taxes	\$	635	
			<hr/> <hr/>

Calculation of Tax Gross-up Factor

Coverion Factor			
Factor			1
State Tax Rate			<hr/> -4%
Factor After State Taxes		0.96	0.96
Times: Federal Tax Rate		0.15	
Effective Federal Tax on Factor		0.144	<hr/> -0.144
Remaining Factor After Taxes			<hr/> 0.816
Tax Gross-up Factor (1/Remaining Factor)			<hr/> <hr/> 1.225490196

Attachment B

DOWN9262 DOWNSTREAM, INC.  
 61-1019262  
 FYE: 12/31/2005

**Book Asset Detail 1/01/05 - 12/31/05**

02/17/2006 10:58 AM  
 Page 1

Asset *	Property Description	Date In Service	Book Cost	Book Sec 179 Exp c	Book Sal Value	Book Prior Depreciation	Book Current Depreciation	Book End Depr	Book Net Book Value	Book Method	Book Period
1	PLANT	1/01/80	70,820.81	0.00	0.00	70,820.81	0.00	70,820.81	0.00	150DB	10.0
2	CLORINATOR BOX	10/01/01	664.91	0.00	0.00	232.72	66.49	299.21	365.70	S/L	10.0
3	GRINDER PUMP	12/01/01	2,087.93	0.00	0.00	1,461.56	417.59	1,879.15	208.78	S/L	5.0
4	GRINDER PUMP	4/24/02	1,919.94	0.00	0.00	959.97	383.99	1,343.96	575.98	S/L	5.0
5	HOLDING TANK	11/01/03	27,116.83	0.00	0.00	5,423.36	2,711.68	8,135.04	18,981.79	S/L	10.0
6	GRINDING PUMP	12/01/03	2,317.34	0.00	0.00	662.10	331.05	993.15	1,324.19	S/L	7.0
7	GRINDER PUMP	2/05/04	3,194.70	0.00	0.00	456.39	456.39	912.78	2,281.92	S/L	7.0
8	NEW LINES	3/25/05	2,287.85	0.00c	0.00	0.00	163.42	163.42	2,124.43	S/L	7.0
<b>Grand Total</b>			<u>110,410.31</u>	<u>0.00c</u>	<u>0.00</u>	<u>80,016.91</u>	<u>4,530.61</u>	<u>84,547.52</u>	<u>25,862.79</u>		

DOWNSTREAM, INC.  
P.O. BOX 191  
FRANKFORT, KY 40602

MAY 9, 2006

DEAR TREATMENT PLANT CUSTOMER:

YOU ARE HEREBY GIVEN NOTICE PURSUANT TO KRS 278.185 THAT WE ARE APPLYING FOR A RATE INCREASE IN OUR MONTHLY SEWER FEE. THE PROPOSED RATE WILL BE FROM \$27.51 PER MONTH TO \$55.85 PER MONTH. THIS IS A 103% INCREASE. THE RATES CONTAINED IN THIS NOTICE ARE THE RATES PROPOSED BY DOWNSTREAM, INC., HOWEVER, THE PUBLIC SERVICE COMMISSION MAY ORDER RATES TO BE CHARGED THAT DIFFER FROM THESE PROPOSED RATES. SUCH ACTION MAY RESULT IN RATES FOR CONSUMERS OTHER THAN THE RATES INCLUDED IN THIS NOTICE. ANY CORPORATION, ASSOCIATION, BODY POLITIC OR PERSON MAY REQUEST LEAVE TO INTERVENE BY MOTION WITHIN THIRTY (30) DAYS AFTER NOTICE OF THE PROPOSED RATE CHANGE IS GIVEN. THE MOTION MUST BE SUBMITTED TO THE PUBLIC SERVICE COMMISSION, 211 SOWER BLVD., P.O. BOX 615, FRANKFORT, KY 40602, AND SHALL SET FORTH THE GROUNDS FOR THE REQUEST INCLUDING THE STATUS AND INTEREST OF THE PARTY. COPIES OF THE REQUEST FOR AN INCREASE CAN BE OBTAINED BY CONTACTING THE DOWNSTREAM, INC. OFFICE AT THE ABOVE ADDRESS OR CALLING 502-227-7518.

THE MANAGEMENT  
DOWNSTREAM, INC.

# Commonwealth of Kentucky

OFFICE OF  
SECRETARY OF STATE

DREXELL R. DAVIS  
*Secretary*



FRANKFORT,  
KENTUCKY

## CERTIFICATE OF INCORPORATION

I, DREXELL R. DAVIS, Secretary of State of the Commonwealth of Kentucky, do hereby certify that Articles of Incorporation of

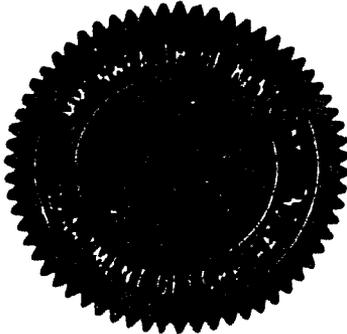
DOWNSTREAM, INC.

whose initial agent for process is WALTER MALMER

U. S. HIGHWAY 127 SOUTH

and whose address is FRANKFORT, KENTUCKY

duly signed according to law, have been filed in my office. I further certify that all taxes, fees and charges payable upon the filing of said Articles of Incorporation have been paid.



SECRETARY OF STATE

Given under my hand and seal of Office as Secretary of State, at Frankfort, Kentucky, this 26<sup>th</sup> day of NOVEMBER, 1979.

*Drexell R. Davis*  
SECRETARY OF STATE

ASSISTANT SECRETARY OF STATE

# COMMONWEALTH OF KENTUCKY



**BOB BABBAGE**  
SECRETARY OF STATE

## STATEMENT OF CHANGE OF REGISTERED OFFICE OR REGISTERED AGENT OR BOTH

RECEIVED & FILED  
\$10.00  
APR 14 1 13 PM '92  
BOB BABBAGE  
SECRETARY OF STATE  
COMMONWEALTH OF KENTUCKY

Pursuant to the provisions of Kentucky Revised Statutes Chapters 271B or 273, the undersigned corporation organized in the state of Kentucky submits the following statement for the purpose of changing its registered office or registered agent or both in the Commonwealth of Kentucky:

The name of the corporation Downstream, Inc.

Street address of its present registered office 45127 P.O. Box 191, Frankfort, KY 40601

Street address of registered office is hereby changed to 106 Regan Street, Frankfort, KY 40601

Name of present registered agent Walter Malmer

Name of registered agent is hereby changed to Rodney R. Ratliff

The street address of its registered office and the street address of the business office of its registered agent, as changed will be identical.

Dated April 13, 19 92.

### CONSENT OF NEW AGENT

Downstream, Inc.

Name of Corporation

I consent to serve as new registered agent for this corporation.

By

Signature of Officer

Signature of New Agent

President

Title of Officer

ORIGINAL COPY  
FILED AND RECORDED  
SECRETARY OF STATE OF KENTUCKY  
FRANKFORT, KENTUCKY

NOV 26 1979

*Dorell Davis*  
SECRETARY OF STATE

ARTICLES OF INCORPORATION  
OF  
DOWNSTREAM, INC.

SECRETARY OF STATE  
RECEIVED

NOV 26 1979  
*Ch \$25.00*  
Commonwealth of Kentucky

154151

We, the undersigned natural persons, having capacity to contract and acting as incorporators of a corporation under the Kentucky Business Corporation Act hereby adopt the following Articles of Incorporation for such corporation:

ARTICLE I

The name of the corporation shall be Downstream, Inc.

ARTICLE II

The period of its duration is perpetual.

ARTICLE III

The purpose or purposes for which this corporation is organized is to transact any and all lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act, including the purchasing, holding and developing of real estate in the State of Kentucky, or elsewhere, including the leasing, renting, managing, controlling, owning, and selling buildings and structures and said corporation shall have the authority to buy, sell, lease, hold and rent real and personal property for this corporation and others, and said corporation shall have the authority to buy, sell, convey, lease, pledge, mortgage, exchange, assign or otherwise acquire, hold and dispose of, handle and otherwise deal in and with real and personal property or any interest therein or whatever name, nature, and description, and wherever the same may be situated, either within or without the Commonwealth of Kentucky, and to exercise unlimitedly all rights and powers incident to the acquisition, holding or disposition of such interest; to do all things necessary or desirable

JOHNSON, JUDY & GAINES, ATTORNEYS AT LAW, 328 WEST MAIN STREET, FRANKFORT, KENTUCKY 40602

JOHNSON, JUDY & GAINES, ATTORNEYS AT LAW, 326 WEST MAIN STREET, FRANKFORT, KENTUCKY 40602

to protect or enhance directly or indirectly the value of any interests owned by the corporation or in which it may have any beneficial interests or rights; to borrow money, credit, or property, to make contracts and to incur obligations and to secure the same by mortgage or pledge of all or part of its assets or franchises; to act for others in any capacity or manner, to participate with others and to merge or to consolidate with other concerns in any business, enterprise or transaction which the company is authorized to engage in, in any manner or on any terms; to buy, sell, pledge, exchange, assign or otherwise acquire, hold and dispose of stocks, bonds, and negotiable securities; and to do any and all other acts consistent with the purposes hereinabove set forth, as now or hereafter authorized by law for a corporation, it being the intention that the enumeration of specific powers shall not operate to limit in any manner the general powers conferred upon corporations by the law of the Commonwealth of Kentucky.

ARTICLE IV

The total number of shares authorized to be issued and the authorized class thereof shall be three hundred (300) shares of common stock, and said shares shall be of no par value. The voting of said stock shall be one vote per share.

ARTICLE V

The address of the initial registered office of said corporation shall be U.S. Highway 127 South, Frankfort, Kentucky 40601, and the name and address of the process agent of the corporation shall be Walter Malmer, U.S. Highway 127 South, Frankfort, Kentucky 40601.

ARTICLE VI

There shall be three directors constituting the initial Board of Directors of the corporation. They shall serve until the first annual meeting of the shareholders. The name and addresses of the directors are Walter Malmer, U.S. Highway 127 South, Frankfort, Kentucky 40601; Rodney R. Ratliff, Leawood Drive, Frankfort, Kentucky 40601; and Olney M. Patrick whose address is 504 Leawood Drive, Frankfort, Kentucky 40601.

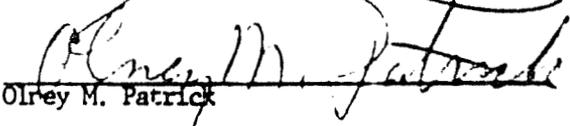
ARTICLE VII

The name and address of the incorporators and the number of shares subscribed to them is as follows: Walter Malmer, U.S. Highway 127 South, Frankfort, Kentucky 40601, 100 shares; Rodney R. Ratliff, Leawood Drive, Frankfort, Kentucky 40601, 100 shares; and Olney M. Patrick, 504 Leawood Drive, Frankfort, Kentucky 40601, 100 shares.

IN WITNESS WHEREOF, we have made, signed and acknowledged these Articles of Incorporation in triplicate originals, this 10<sup>th</sup> day of October, 1979.

  
Walter Malmer

  
Rodney R. Ratliff

  
Olney M. Patrick

COMMONWEALTH OF KENTUCKY  
COUNTY OF FRANKLIN

I, the undersigned, a notary public in and for the Commonwealth and County aforesaid, hereby certify that Walter Malmer, Rodney R. Ratliff, and Olney M. Patrick personally appeared before me and acknowledged and delivered the foregoing Articles of Incorporation of Downstream, Inc., to be their free

act and served as incorporators of said corporation.

Witness my hand and seal of office this 30<sup>th</sup> day of October, 1979.

Mrs. Margaret Jenko  
Notary Public  
State of Kentucky at Large

My Commission Expires: 5-28-80

JOHNSON, JUDY & GAINES, ATTORNEYS AT LAW, 326 WEST MAIN STREET, FRANKFORT, KENTUCKY 40602

THIS INSTRUMENT PREPARED BY:

Paul C. Gaines III  
Paul C. Gaines III  
Johnson, Judy & Gaines  
326 W. Main Street - Box 756  
Frankfort, Kentucky 40602